

**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
June 17, 2008 Through July 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MARTIN COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**June 17, 2008 Through July 30, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Martin County Sheriff for the period June 17, 2008 through July 30, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$4,920,232 for the districts for 2008 taxes, retaining commissions of \$190,347 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,728,219 to the districts for 2008 taxes.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kelly Callahan, Martin County Judge/Executive

Honorable Garmon Preece, Martin County Sheriff

Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the Martin County Sheriff's Settlement - 2008 Taxes for the period June 17, 2008 through July 30, 2009. This tax settlement is the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid for the period June 17, 2008 through July 30, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kelly Callahan, Martin County Judge/Executive

Honorable Garmon Preece, Martin County Sheriff

Members of the Martin County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

January 28, 2010



MARTIN COUNTY  
GARMON PREECE, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period June 17, 2008 Through July 30, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 203,053	\$ 300,224	\$ 971,364	\$ 223,176
Tangible Personal Property	153,767	276,179	637,891	543,989
Franchise Taxes	55,056	95,046	234,884	
Prior Year Franchise Taxes	20,791	31,226	91,125	
Additional Billings	196	258	906	220
Oil and Gas Property Taxes	169,084	239,156	808,889	185,831
Penalties	3,207	4,658	15,319	3,548
Adjusted to Sheriff's Receipt	(414)	(588)	(2,002)	(461)
Gross Chargeable to Sheriff	<u>604,740</u>	<u>946,159</u>	<u>2,758,376</u>	<u>956,303</u>
<u>Credits</u>				
Exonerations	2,249	3,512	10,755	2,574
Discounts	8,268	12,910	37,846	15,405
Delinquents:				
Real Estate	12,180	17,498	58,269	13,388
Tangible Personal Property	7,879	14,151	32,684	27,599
Delinquent Oil & Gas	3,439	4,865	16,454	3,780
Delinquent Gas Penalties	382	540	1,829	420
Current Year Uncollected Franchises	5,197	9,075	21,988	
Prior Year Uncollected Franchises	<u>30</u>	<u>51</u>	<u>129</u>	
Total Credits	<u>39,624</u>	<u>62,602</u>	<u>179,954</u>	<u>63,166</u>
Taxes Collected	565,116	883,557	2,578,422	893,137
Less: Commissions *	<u>24,305</u>	<u>37,551</u>	<u>90,245</u>	<u>38,246</u>
Taxes Due	540,811	846,006	2,488,177	854,891
Taxes Paid	540,572	845,664	2,487,247	854,736
Refunds (Current and Prior Year)	<u>239</u>	<u>342</u>	<u>930</u>	<u>155</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,331,810
3.5% on	\$	2,578,422

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

July 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Martin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MARTIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 July 30, 2009  
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Martin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2009, through July 30, 2009.

Note 4. Interest Income

The Martin County Sheriff earned \$600 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Martin County Sheriff collected \$16,604 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Martin County Sheriff collected \$2,930 of advertising costs and \$2,340 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2008	\$1,455
2007	\$1,498

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff should send a written report to the Treasury Department in accordance with KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Callaham, Martin County Judge/Executive  
Honorable , Martin County Sheriff  
Members of the Martin County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Martin County Sheriff's Settlement - 2008 Taxes for the period June 17, 2008 through July 30, 2009, and have issued our report thereon dated January 28, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Martin County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Martin County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin County Sheriff's Settlement - 2008 Taxes for the period June 17, 2008 through July 30, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Martin County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Martin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 28, 2010



COMMENT AND RECOMMENDATION



MARTIN COUNTY  
GARMON PREECE, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period June 17, 2008 Through July 30, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of proper segregation of duties. The bookkeeper prepares all daily checkout sheets, prepares and signs all checks, maintains the receipts and disbursements ledgers and reconciles the bank accounts. Good internal controls dictate that the same employee should not handle, record, and process financial information. The Sheriff should either segregate these duties or strengthen internal controls by routinely reviewing daily checkout procedures for accuracy, review the bank reconciliations, and ensure that all information posted to the financial statement is complete and accurate.

*Sheriff's Response: Sheriff will do compensating controls to attempt to meet this requirement.*

